3) Business Results and Financial Position

(1) Summary

Consolidated results for fiscal 2002, the year ended March 31, 2002, are as follows:

Net sales decreased 16.7% year on year to ¥575,029 million (US$4,323,526 thousand). TDK posted an operating loss of ¥43,722 million (US$328,737 thousand), compared with operating income of ¥56,323 million in fiscal 2001. Furthermore, TDK posted a loss before income taxes of ¥43,697 million (US$328,549 thousand), compared with income before income taxes of ¥64,516 million. TDK also posted a net loss of ¥25,771 million (US$193,767 thousand), compared with net income of ¥43,983 million (US$354,702 thousand) a year earlier. Consequently, net loss per common share was ¥193.91 (US$1.46), compared with ¥330.54 in fiscal 2001.

The fiscal 2002 operating loss partly reflects the inclusion of ¥25,872 million (US$194,526 thousand) in restructuring expenses related to structural reforms for restoring TDK's ability to generate earnings.

During the year, the average exchange rate was ¥125 for the U.S. dollar and ¥110 for the euro, representing decreases in the yen's value of 13% and 10%, respectively. Overall, the yen's depreciation had the effect of lifting net sales by approximately ¥40.8 billion and reducing the operating loss by approximately ¥9.8 billion.

In the electronic materials and components segment, net sales were ¥432,951 million (US$3,255,270 thousand), down 21.6% from the previous year. Overall, the segment was affected by inventory corrections at TDK's customers in a broad range of categories. These corrections were prompted by two main factors: the slowdown in the U.S. economy from the fourth quarter of the previous fiscal year, and a global downturn in IT investment. Prolonging the correction period has been a huge surplus of inventories across a broad spectrum of electronic components. An overly optimistic outlook for worldwide demand for mobile phones and PCs, which have driven advances in digital networking technologies, was to blame for this situation.

Within this segment, sales in the electronic materials sector decreased 23.7% to ¥161,846 million (US$1,216,887 thousand). Multilayer chip capacitors, which account for the majority of capacitor sales, saw sales drop markedly due to falling demand for use in PCs and peripherals and mobile phones; this area posted a significant rise in sales in the previous fiscal year. Cushioning the fall somewhat was a slight rise in demand for multilayer chip capacitors for automotive applications, fueled by the increasing use of electronic systems in automobiles. But sales for this application still constitute a small proportion of overall sales of this product.

In ferrite cores and magnets, sales of ferrite cores for use in data-communications devices such as ADSL (Asymmetric Digital Subscriber Lines) devices, which saw strong demand last year, recorded a sharp drop in sales. The main factor for this downturn was a drop-off in IT investment-related demand. Deflection yoke cores and flyback transformer cores, both key components in TVs and computer monitors, saw sales fall, as competition intensified. Magnet sales decreased overall, too. Lower demand for use in motors for PCs and peripherals and AV products was the main reason. During the year, sales of ferrite magnets for automotive applications were largely the same as the previous year thanks to their increasing use in automobiles and favorable exchange rates.

In the electronic devices sector, sales decreased 27.0% to ¥105,937 million (US$796,519 thousand) year on year. Inductive devices, the largest product category in this sector, recorded lower sales, despite a slight increase in demand for use in automotive applications. This result chiefly reflected falling demand in the key markets for audio and visual products, PCs and peripherals, and communications. High-frequency components recorded a relatively large decrease in sales, compared with other products. Hurting sales was the marked slowdown in demand for mobile phones, which account for a high proportion of sales of these components. In other products, sales were largely flat year on year. Falling sales of chip NTCs and other products, which reflected lower mobile phone demand, were offset by strong demand for DC-DC converters for video game systems.

In the recording devices sector, sales were ¥147,004 million (US$1,105,293 thousand), 13.1% down on the previous fiscal year. In the first half of the year, HDD head sales fell on account of two main factors. One was TDK's delay, relative to competitors, in supplying mainstream 30gigabyte/disk HDD heads. This resulted in TDK losing market share. The other factor was the scaling back of HDD production by TDK's customers, which was prompted by lackluster PC demand. In the second half, sales rose dramatically relative to the first half, enabling TDK to limit the extent of sales declines for the year as a whole. The second-half turnaround was attributable to TDK regaining some lost market share by gradually increasing shipments of its well-received 40gigabyte/disk HDD heads. In other heads, a market slowdown and other factors led to a fall in sales.

Sales in the semiconductor & others sector decreased 29.3% to ¥18,164 million (US$136,571 thousand). This reflected a marked decrease in sales of semiconductors for WAN/LAN and set-top box modems due to the continuing downturn in the semiconductor market. In the previous fiscal year, communications infrastructure equipment and PCs drove demand for semiconductors. Limiting the extent of the overall fall in sector sales were higher sales of anechoic chambers and measurement systems. These product lines benefited from the increasing digitalization of products and the use of higher frequencies.

In the recording media & systems segment, sales edged up 3.2% to ¥142,078 million (US$1,068,256 million). This growth was attributable to higher sales of CD-Rs, which generate the bulk of TDK's optical media sales. In this product category, higher volumes more than offset falling year-on-year sales prices. Other reasons for segment growth were the yen's depreciation and recording equipment sales, which started in fall of the previous fiscal year. Moreover, sales of tape-based data storage media for computers rose, spurred on by the launch of a new product line based on the LTO (Linear Tape-Open) standard, following verification of TDK's LTO products during the year. TDK intends to work on gaining verification for more new standards as a way of driving further growth in this storage media area. Hampering further growth in the segment was the long-term decline in audiotape and videotape sales due to the rising popularity of optical media and DVD software.

By region, sales in Japan decreased 25.7% to ¥164,912 million (US$1,239,940 thousand), reflecting lower year-on-year sales in most product categories due to falling demand. In the Americas, sales declined 13.6% to ¥113,346 million (US$852,225 thousand), owing to soft demand for electronic materials and electronic devices. This outweighed higher sales in the recording media & systems segment, which were lifted by the launch of recording equipment sales (which began in the fall of the previous fiscal year). In Europe, sales decreased 20.8% to ¥80,027 million (US$601,707 thousand), reflecting sluggish demand for electronic materials and electronic devices. In particular, there was a significant decline in sales of high-frequency components mainly for GSM and other mobile phone formats. Sales in the recording media & systems segment increased with the start of recording equipment sales in Europe in the current fiscal year and higher sales volumes of CD-Rs. However, these increases were insufficient to offset the declines. In Asia (excluding Japan) and Others, sales decreased 8.0% to ¥216,744 million (US$1,629,654 thousand). In addition to soft demand for electronic materials and electronic devices, overall sales were hurt by a sharp drop in sales of recording devices, which account for a high proportion of sales in this region. The overall result was a 12.3% fall in overseas sales to ¥410,117 million (US$3,083,586 thousand). Overseas sales accounted for 71.3% of consolidated net sales, up 3.5 percentage points from 67.8% in fiscal 2001.

On a parent-company basis, net sales decreased 30.6% to ¥317,811 million (US$2,389,556 thousand) and current income plummeted 84.9% to ¥7,580 million (US$56,992 thousand). The parent company recorded a net loss of ¥3,794 million (US$28,526 thousand), compared with net income of ¥8,739 million in the previous fiscal year. Accordingly, net loss per share was ¥28.55 (US$0.21), compared with net income per share of ¥65.62 in fiscal 2001.

As with consolidated results, sales in the electronic materials and components segment fell, decreasing 31.7% to ¥271,775 million (US$2,043,421 thousand) due to the adverse effects of softening markets. Sales in the recording media & systems segment decreased 22.7% to ¥46,036 million (US$346,135 thousand). This reflected two main factors: a decrease in parent-company CD-R shipments following the cessation of production at the parent company and subsequent switch to outside purchases; and falling total demand for audiotapes and videotapes.

In line with its policy regarding the allocation of earnings, TDK plans to pay a year-end dividend of ¥20 per share. This is a reduction from the previous year and was made out of consideration of losses on both the consolidated basis and at the parent company. Combined with the interim dividend of ¥30 per share paid in December 2001, the dividend per share applicable to the year is ¥50. On a parent-company basis, fiscal 2002 ROE was –0.9% and DOE was 1.6%. On a consolidated basis, ROE was –4.2% and DOE was 1.3%.

(2) Financial Position

1. As of March 31, 2002, total assets stood at ¥749,910 million (US$5,638,421 thousand), down 8.6% from a year ago. Total stockholders' equity decreased 8.4% to ¥583,927 million (US$4,390,429 thousand). The equity ratio was 77.9%, an increase of 0.1 of a percentage point.

At year-end, cash and cash equivalents had declined ¥25,156 million (US$189,143 thousand) year on year, net trade receivables were down ¥13,758 million (US$103,444 thousand) and inventories ¥25,274 million (US$190,030 thousand). These declines were offset by the reversal of ¥41,290 million (US$310,451 thousand) in prepaid pension costs in accordance with U.S. accounting standards and an increase in long-term deferred tax assets of ¥34,331 million (US$258,128 thousand), included in other assets. As a result of the above and other changes, total assets decreased ¥70,267 million from a year ago.

On the other side of the balance sheet, liabilities decreased ¥17,604 million (US$132,361 thousand). An ¥18,237 million (US$137,120 thousand) increase in retirement and severance benefits was offset by decreases of

¥12,064 million (US$90,707 thousand) in trade payables and ¥17,092 million (US$128,511 thousand) in income taxes. In addition, debt, accrued expenses and other items decreased.

Total stockholders' equity declined by a total of ¥53,822 million (US$404,677 thousand). This reflected a decrease of ¥36,022 million (US$270,842 thousand) in retained earnings mainly due to the net loss for fiscal 2002. Accumulated other comprehensive loss decreased by ¥19,148 million (US$143,970 thousand) due to an increase in minimum pension liability adjustments and a decrease in foreign currency translation adjustments.

2. Cash Flows

(¥ millions)

	Fiscal 2002	Fiscal 2001	Change
Net cash provided by operating activities	41,504	67,597	(26,093)
Net cash used in investing activities	(57,903)	(92,538)	34,635
Net cash used in financing activities	(13,202)	(8,814)	(4,388)
Effect of exchange rate changes on cash and cash equivalents	4,445	10,153	(5,708)
Net decrease in cash and cash equivalents	(25,156)	(23,602)	(1,554)
Cash and cash equivalents at beginning of period	150,917	174,519	(23,602)
Cash and cash equivalents at end of period	125,761	150,917	(25,156)

Operating activities provided cash of ¥41,504 million (US$312,060 thousand), ¥26,093 million less than a year earlier. The main reason for the decrease was the net loss of ¥25,771 million, which partly resulted from the implementation of structural reforms. Depreciation was ¥61,920 million (US$465,564 thousand), ¥1,659 million lower than in the previous fiscal year. In terms of changes in assets and liabilities, capital efficiency improved as decreases were recorded in trade receivables of ¥18,517 million, inventories of ¥28,776 million, trade payables of ¥14,806 million and income taxes of ¥17,181 million.

Investing activities used net cash of ¥57,903 million (US$435,361 thousand), a decrease of ¥34,635 million year on year. Capital expenditures amounted to ¥58,777 million (US$441,932 thousand), a decrease of ¥40,675 million from a year ago. Payments for the purchase of investments increased ¥2,424 million, mainly for investment in a semiconductor venture business, to ¥3,116 million (US$23,429 thousand).

Financing activities used net cash of ¥13,202 million (US$99,263 thousand), ¥4,388 million more than in the previous fiscal year. This mainly represented the repayment of ¥4,345 million (US$32,669 thousand) in short- and long-term debt at overseas subsidiaries, as well as payments of ¥926 million to acquire treasury stock. Dividends paid were ¥7,977 million (US$59,978 thousand), the same level as in the previous year.

Fiscal 2003 Projections

TDK's consolidated and non-consolidated projections for fiscal 2003, the year ending March 31, 2003, are based on the following assumptions:

- An average exchange rate of ¥120=US$1 for the fiscal year.
- Orders are tending to recover across the board for electronic components. But economic recovery, particularly in the U.S., is tenuous and is expected to be mild at best. Another uncertainty is the absence of any products that look likely to stimulate new demand and sustain a full-fledged recovery in demand for electronic components and semiconductors. With market conditions still difficult for the electronic components industry, TDK does not expect to see any significant growth in sales of electronic materials and electronic devices.
- Sales in the recording devices sector are expected to remain at about the same level as in fiscal 2002. A slight increase in demand for use in PCs and HDDs is expected, but this positive factor is likely to be outweighed by a decrease in the number of heads used per item. On the other hand, TDK expects to gain market share.
- In the recording media & systems segment, TDK is forecasting sales largely on a par with fiscal 2002. This forecast is premised on lower demand for audiotapes and videotapes, and higher demand for optical discs and increased sales of LTO-standard data tapes, which were verified in fiscal 2002.

Consolidated Projections for Fiscal 2003

	Year ending March 2003	% change from FY02	Year ended March 2002
	¥ millions		¥ millions
Net sales	¥580,000	0.9%	¥575,029
Operating income (loss)	20,000	(-)	(43,722)
Income (loss) before income taxes	17,000	(-)	(43,697)
Net income (loss)	13,000	(-)	(25,771)

Non-Consolidated Projections for Fiscal 2003

	Year ending March 2003	% change from FY02	Year ended March 2002
	¥ millions		¥ millions
Net sales	¥300,000	-5.6%	¥317,811
Operating income (loss)	4,000	(-)	(8,507)
Current income	6,500	-14.2%	7,580
Net income (loss)	2,000	(-)	(3,794)

Cautionary Statement About Projections

Projections for the fiscal year ending March 31, 2003 are based on assumptions and beliefs of TDK and its group companies in accordance with data currently available. Consequently, these projections should not be relied upon as the sole basis for evaluating TDK. Actual results may differ substantially from the projections depending on a number of factors.

The electronics markets in which TDK operates are highly susceptible to rapid changes. Furthermore, TDK operates not only in Japan, but in many other countries. As such, factors that can have significant effects on its results include, but are not limited to, shifts in technology, demand, prices, competition, economic environments and foreign exchange rates.